

## Message Text

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PAGE 01 PARIS 02793 301756Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02  
LAB-04 SIL-01 OMB-01 /055 W  
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FM AMEMBASSY PARIS  
TO DEPARTMENT OF TREASURY  
SECSTATE WASHDC 4972

C O N F I D E N T I A L PARIS 02793

FOR STATE: PASS EUR/EB

E. O. 11652: GDS  
TAGS: EFIN  
SUBJECT: SHORT-TERM CAPITAL INFLOW

REFTEL: (A) PARIS 32080, (B) PARIS 30063, (C) PARIS  
23764

1. NET AUTONOMOUS SHORT-TERM CAPITAL PLUS NET ERRORS  
AND OMISSIONS CONTINUED TO SHOW A SUBSTANTIAL INFLOW  
DURING THE LAST QUARTER OF THE YEAR WITH AN INFLOW OF  
3.97 BILLION FRANCS IN OCTOBER MORE THAN OFFSETTING A  
30 MILLION AND A 190 MILLION FRANC OUTFLOW IN OCTOBER  
AND DECEMBER RESPECTIVELY. TOTAL OF SUCH INFLOWS FOR  
1977 IS JUST OVER 23 BILLION FRANCS.

2. AS NOTED REFTEL (A), THIS INTERNAL MOF DATA IS  
SUBJECT TO SUBSTANTIAL REVISION BEFORE BEING PUBLISHED  
ON A BALANCE OF PAYMENTS BASIS AS A PART OF THE  
"ADJUSTMENT" ITEM. HOWEVER, IT DOES REFLECT INFLOWS ON A  
TRANSACTIONS BASIS AND AS SUCH IS A KEY INDICATOR OF  
FOREIGN EXCHANGE MARKET DEVELOPMENTS. THE 190 MILLION  
FRANC OUTFLOW IN DECEMBER IS A PROVISIONAL FIGURE, BUT IT  
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PAGE 02 PARIS 02793 301756Z

MIGHT INDICATE A REVERSAL IN THE HEAVY INFLOW OF SHORT-  
TERM CAPITAL AS THE MARCH ELECTIONS GET CLOSER.

3. THE FRENCH BALANCE OF PAYMENTS IN 1977 REQUIRED  
ABOUT 16 BILLION FRANCS TO FINANCE THE BASIC BALANCE  
DEFICIT. OBVIOUSLY THE GROSS INFLOW OF NET AUTONOMOUS  
SHORT-TERM CAPITAL PLUS NET ERRORS AND OMISSIONS WAS

MORE THAN SUFFICIENT TO FINANCE FRANCE'S EXTERNAL POSITION IN 1977.

4. IN RECENT WEEKS FRENCH LONG-TERM CAPITAL BORROWING ABROAD HAS PICKED UP, LED AS USUAL BY A 500 MILLION DOLLAR EDF/GDF BORROWING. SUCH BORROWING PROBABLY WAS INITIATED TO OFFSET AN EXPECTED OUTFLOW OF SHORT-TERM CAPITAL FROM NOW UNTIL THE MARCH ELECTIONS. AS MATTERS STAND, THERE IS A CONSIDERABLE CUSHION TO FINANCE THE FRANC'S EXTERNAL POSITION; BUT IT SEEMS UNLIKELY THAT THE LARGE SHORT-TERM CAPITAL INFLOWS RECORDED IN 1977 WILL CONTINUE UNTIL THE ELECTIONS ARE DECIDED. THUS, ON A TRANSACTIONS BASIS THE DEMAND FOR FRANCS PROBABLY WILL BE WEAKER THAN IN RECENT MONTHS AND SOME SUPPORT OPERATIONS BY THE MONETARY AUTHORITIES SEEM LIKELY IN THE WEEKS AHEAD.  
HARTMAN

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NNN

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